

### **Material Accounting Changes Workpaper (TO2018)**

Pursuant to protocol section 3(a)(10) and Section 3.2 of the Offer of Settlement (ER11-3697), SCE is required to include in the Draft Annual Update a description of any “Material Accounting Changes” included in the Draft Annual Update.

Material Accounting Changes are defined in the protocols as:

“Material Accounting Changes” shall mean any material change in SCE’s (i) accounting policies and practices from those in effect for the Rate Year upon which the immediately preceding Annual Update was based, or (ii) internal corporate cost allocation policies or practices from those policies and/or practices in effect for the Rate Year upon which the immediately preceding Annual Update was based.

There have been two Material Accounting Changes implemented since 2015 that impact the recorded 2016 year:

First, SCE implemented an upgrade to its PowerPlant software, SCE’s primary software accounting for capital assets. As part of this software upgrade, SCE adopted the PowerPlant process for Contributions In Aid of Construction (“CIAC”). This accounting process uses the work order unit estimate to attribute the CIAC to plant (Construction Work in Progress “CWIP”), removal (Retirement Work in Progress or “RWIP”), and work order related expense and also sets the timing of the accounting entries to when the construction and billing is complete instead of at unitization of work order.

Second, SCE adopted a new FASB standard (ASU 2016-09) which simplified the accounting for share-based compensation. To fully implement the new standard, SCE filed for FERC approval to use Account 439 to record a cumulative effect adjustment to retained earnings for FERC reporting purposes. SCE’s filing was accepted on August 3, 2017, in FERC Docket No. AC17-74.

Third, in December 2016, SCE filed a request to change its tax accounting method for the timing of tax basis adjustments and related depreciation of 1) capitalized interest pursuant to Internal Revenue Code Section 263A and 2) Allowance for Funds Used During Construction. The filing proposes an effective date beginning January 1, 2016. Approval by tax authorities for this request to change tax accounting method occurred in the third quarter of 2017, and the proposed changes were reflected for financial reporting purposes in the third quarter of 2017.

Lastly, in August 2017, SCE filed for an automatic change of accounting method, effective January 1, 2016, for contractor costs paid or incurred to develop computer software. SCE previously treated all contractor costs associated with computer software as capital expenditures subject to ratable tax amortization over 36 months. Under its new method, all

eligible contractor costs will be deductible pursuant to Internal Revenue Code Section 162 consistent with Section 5.01(1) of Internal Revenue Service Revenue Procedure 2000-50. These changes were reflected for financial reporting purposes in the third quarter of 2017.